

**BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

**APPLICATION OF PALMETTO
WASTEWATER RECLAMATION, INC.
FOR AN ADJUSTMENT OF ITS RATES
AND CHARGES**

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Docket No. 2021-153-S

SURREBUTTAL TESTIMONY

OF

LAFAYETTE K. MORGAN, JR.

ON BEHALF OF THE

SC DEPARTMENT OF CONSUMER AFFAIRS

October 28, 2021

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1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Lafayette K. Morgan Jr. My business address is 10480 Little Patuxent
5 Parkway, Suite 300, Columbia, Maryland, 21044. I am a Public Utilities Consultant
6 working with Exeter Associates, Inc. (“Exeter”). Exeter is a consulting firm
7 specializing in issues pertaining to public utilities.

8 **Q. ARE YOU THE SAME LAFAYETTE K. MORGAN, JR. WHO SUBMITTED**
9 **PRE-FILED DIRECT TESTIMONY ON SEPTEMBER 30, 2021 IN THIS**
10 **PROCEEDING?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

13 A. The purpose of my surrebuttal testimony is to address the issues discussed in the
14 rebuttal testimonies of Palmetto Wastewater Reclamation, Inc.’s (“PWR” or
15 “Company”) witnesses Mujeeb Hafeez and Donald H. Burkett which were filed on
16 October 14, 2021.

17 **Q. ARE YOU INCLUDING UPDATED SCHEDULES SUMMARIZING DCA’S**
18 **CURRENT REVENUE REQUIREMENT POSITION IN THIS PROCEEDING?**

19 A. Yes. I have attached Surrebuttal Schedules LKM-1 to LKM-13 to this testimony which
20 present DCA’s updated position after taking the Company’s rebuttal position on certain
21 issues into account.

22 **Q. PLEASE SUMMARIZE DCA’S UPDATED RECOMMENDATION AS A**
23 **RESULT OF THE CHANGES DISCUSSED IN THIS TESTIMONY.**

24 A. In this testimony, I respond to PWR witnesses’ rebuttal testimonies on various
25 adjustments I recommended in my direct testimony. I have considered the issues
26 addressed in their rebuttal testimonies and, in some instances, I have modified my
27 adjustments where necessary. As a result of these changes, my revised recommended

1 total revenue requirement results in a decrease in revenues of \$1,129 instead of the
2 \$370,405 decrease that I recommended in my direct testimony.

3 To the extent that the Company has rebutted my position on an issue that I
4 challenged in my direct testimony, but I did not address in this surrebuttal testimony, it
5 should not be construed that I agree with the Company.

6 **II. ADJUSTMENTS TO THE COST OF SERVICE**

7 **A. Shared Corporate Expenses**

8 **Q. COMPANY WITNESSES MUJEEB HAFEEZ AND DONALD BURKETT**
9 **DISAGREE WITH THE ADJUSTMENT TO SHARED CORPORATE**
10 **EXPENSES THAT YOU RECOMMENDED. PLEASE RESPOND.**

11 A. In my direct testimony, I explained that the shared corporate services costs allocated to
12 PWR were comprised of the following two distinct groups of costs: 1) regional and
13 local shared costs, and 2) corporate management overhead costs. I then recommended
14 adjustments to shared corporate services expense to remove \$208,774 of shared
15 corporate management overhead costs allocated from SouthWest Water Company
16 (“SWWC”) to PWR; \$36,206 of depreciation expense allocated from SouthWest; and
17 \$62,113 of a Non-Recurring Bonus that was charged to PWR.

18 In Mr. Hafeez’s rebuttal testimony, he disagrees with my adjustment and argues
19 that PWR’s adjusted Test Year costs do not include shared corporate costs derived from
20 two separate parent company groups. With regard to the Non-Recurring Bonus of
21 \$62,113, that was charged to PWR, Mr. Burkett also indicates that those costs were
22 removed from the cost of service.

23 Based on both witnesses’ testimonies, I have reassessed the data presented in
24 the Company’s response to ORS AIR 1-3 Attachment (g). After my reexamination of
25 the data, I will agree with the Company that the prior ownership allocation of corporate
26 management costs was removed from the cost of service. Therefore, I will withdraw

1 my adjustment to remove the \$208,774 of shared corporate management overhead
2 costs, \$36,206 of depreciation expense, and \$62,113 for the Non-Recurring Bonus
3 allocated from SWWC to PWR.

4 **B. Employee Benefits Expense**

5 **Q. PLEASE RESPOND TO MR. BURKETT'S DISAGREEMENT WITH YOUR**
6 **ADJUSTMENT TO EMPLOYEE BENEFITS EXPENSES.**

7 A. In my direct testimony, I explained that employee benefits expense for the test year is
8 significantly higher than the two previous years. I explained that I was recommending
9 an adjustment to normalize employee benefits expenses to reflect the most recent 3-
10 year average. I based my adjustment on information provided by the Company in the
11 response to DCA 3-33 and assumed that the amount presented for 2020 was the amount
12 included in the cost of service since the test year in this proceeding is the calendar year
13 2020. However, the response to DCA 3-33 did not indicate that the amount presented
14 in the response, as the 2020 amount, was not the amount included in the cost of service.

15 In his disagreement with my testimony, Mr. Burkett raises several points that
16 led him to conclude that my adjustment was inappropriate, but he failed to acknowledge
17 that the amount in the cost of service was not the amount which was the basis of my
18 adjustment.

19 The arguments put forth by Mr. Burkett are moot at this point because I have
20 confirmed, from my reexamination of the Company's response to ORS AIR 1-3
21 Attachment (g), that the Company removed the costs provided in the response to DCA
22 3-33. These are the costs I was adjusting as part of my removal of the previous
23 management operating costs. Hence, there is no need to make the adjustment that I
24 was recommending. Therefore, I will withdraw my adjustment to remove the \$51,340
25 of employee benefits expenses.

1 **C. Rate Case Expense**

2 **Q. WHAT IS YOUR RESPONSE TO MR. BURKETT'S DISAGREEMENT WITH**
 3 **YOUR ADJUSTMENT TO RATE CASE EXPENSE?**

4 A. Mr. Burkett disagrees with my recommendation that a 3-year period be used to
 5 amortize the rate case expenses related to this proceeding. In his rebuttal testimony, he
 6 states:

7 Witness Morgan proposes his adjustment based on the length of time
 8 between the Company's rate cases; however, his argument is
 9 misleading and erroneous. While it's true that the Company's
 10 previous rate case was filed approximately three years prior to the
 11 filing of the current application, the Company didn't begin recovering
 12 its previous rate case expenses until after the Commission's issuance
 13 of its final order on May 14, 2019. In other words, PWR didn't
 14 recover all of its reasonably incurred rate case expenses until May of
 15 2021, nearly three years after many of them were incurred in 2018.
 16 Similarly, in the present case, PWR has incurred reasonable rate case
 17 expenses but won't begin to recover them until after the Commission
 18 issues a final order.¹

19 I fail to see how the justification for my adjustment could be “misleading and
 20 erroneous”, when, in my direct testimony, I stated “[t]he 3-year period is based upon
 21 the **approximate** time between the last rate proceeding and this proceeding.”
 22 Moreover, in the very next sentence, Mr. Burkett then states it is true that there has
 23 been approximately three years between the prior rate case proceeding and the current
 24 proceeding.

25 In my experience in other jurisdictions, the period used to amortize rate case
 26 expense is never an exact measurement. It is almost always an approximation, partly
 27 because no one can accurately predict when the next rate case will be filed. In the
 28 response to DCA 3-13, PWR stated the “two-year period was proposed based on the
 29 rate case expense amortization period approved in PWR’s most recent rate case.” I

¹ Burkett Rebuttal page 5, lines 1-9

1 don't believe that costs should be determined simply based on how it was done before,
2 while current information suggests otherwise. In this proceeding, the recent history
3 suggests that a 3-year period is appropriate. Therefore, the Commission should reject
4 the Company's 2-year amortization period proposal.

5 **D. Excess Deferred Income Tax Amortization**

6 **Q. PLEASE EXPLAIN WHY YOU RECOMMENDED AN ADJUSTMENT**
7 **RELATED TO THE EXCESS DEFERRED INCOME TAX AMORTIZATION.**

8 A. In the Company's rate case application, the Company proposed an adjustment to reflect
9 the excess deferred income tax (EDIT) amortization. The nature of the adjustment was
10 not discussed, so it was unclear why the adjustment was made at the time I filed my
11 direct testimony. In the direct testimony of ORS witness Christina Seale, she provides
12 a brief description of the nature of the adjustment. Her testimony, in addition to the
13 testimony of ORS' witness Matthew P. Schellinger II in Docket No. 2018-82-S,
14 provide the background that was needed for me to make a similar adjustment in
15 developing the DCA's position. Consistent with a similar adjustment proposed by the
16 Company and ORS, I am recommending an adjustment to reflect the EDIT
17 amortization on Surrebuttal Schedule LKM-13. That adjustment reduces federal
18 income taxes by \$19,880.

19 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

20 A. After reviewing the Company's testimony, I have revised my position with respect to
21 the allocation of shared corporate services costs. As a result, my analysis of PWR's
22 cost of service shows the Company's current annualized revenue of \$3,695,050 should
23 be reduced by \$1,129 in order to attain the overall rate of return on rate base of 5.47²
24 percent as recommended by DCA witness Rothschild. Essentially, this

² Note- my schedules reflect a rate of return of 5.46 due to a slight rounding difference. This difference does not affect the DCA's recommendation.

1 recommendation means that the rate increase requested by the Company is not justified
2 at this time. Therefore, the Commission should deny the requested increase as my
3 analysis shows the current revenue is more than sufficient.

4 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

5 A. Yes, it does.